



Nquthu Local Municipality  
(Registration number KZN242)  
Annual Financial Statements  
for the year ended June 30, 2019

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## General Information

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<b>Legal form of entity</b>	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996)
<b>Nature of business and principal activities</b>	Local Municipality
<b>The following is included in the scope of operation</b>	Rendering of basic services to the local community as per Chapter 7 of the Constitution of the Republic of South Africa
<b>Executive Committee</b>	Cllr. SM Kunene (Mayor) Cllr. NM Zungu (Deputy Mayor) Cllr. PP Ntombela Cllr. LS Hoffman Cllr. LC Moloi Cllr. MR Ngobese Cllr. ME Mnguni (Speaker)
<b>Ordinary Councilors</b>	Cllr. Z Sithole Cllr. RS Langa Cllr. EM Mkhwanazi Cllr. IL Shabalala Cllr. NM Buthelezi Cllr. MSK Gumbi Cllr. SM Buthelezi Cllr. SP Mathe Cllr. FA Hlatshwayo Cllr. JN Khoza Cllr. JZ Ndimba Cllr. SD Masimula (MPAC Chairperson) Cllr. AS Zulu Cllr. GF Molefe Cllr.. SMC Zikode Cllr. TJ Motloung Cllr. NS Mkhize Cllr. NG Mdlalose Cllr. BI Zwane Cllr. ET Nhlebela Cllr. CT Buthelezi Cllr. TA Dlamini Cllr. MN Khanye Cllr. SG Kunene Cllr. CN Xulu Cllr. HM Shelembe
<b>Accounting Officer</b>	Mr. BP Gumbi
<b>Chief Finance Officer (CFO)</b>	Mr. WS Mpanza
<b>Registered office</b>	Municipal Building 83/11 Mdlalose Street Nquthu 3135
<b>Business address</b>	Municipal Building

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## General Information

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	83/11 Mdlalose Street Nquthu 3135
<b>Postal address</b>	Private Bag X 5521 Nquthu 3135
<b>Bankers</b>	ABSA South Africa
<b>Auditors</b>	Auditor General
<b>Attorneys</b>	BMM Inc. Rafiq Khan Inc.

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Index

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The reports and statements set out below comprise the annual financial statements presented to the Nquthu Local Municipality Council.:

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DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# **Nquthu Local Municipality**

Annual Financial Statements for the year ended June 30, 2019

## **Accounting Officer's Responsibilities and Approval**

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The Accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting officer to ensure that the annual financial statements fairly present the state of affairs for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements the municipality as at the end of the financial year and the results of its operations and cash flows independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting officer to meet these responsibilities, the municipality sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although Accounting Officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's Governance Structures.

I would like to bring to your attention the following material matters to your attention:

I certify that the salaries, allowances and benefits of councillors as disclosed in note 33 to these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with the Act.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 58, which have been prepared on the going concern basis, were approved by the Council on 31 August, 2019 and were signed on its behalf by:

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**Accounting Officer**  
**Designation**

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Statement of Financial Position as at June 30, 2019

Figures in Rand	Note(s)	2019	2018
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	9	874,272	1,126,367
Receivables from exchange transactions	10	3,538,358	4,168,217
Receivables from non-exchange transactions	11	39,933,032	25,436,361
VAT receivable	12	4,462,410	4,084,624
Prepayments		745,382	688,266
Cash and cash equivalents	13	246,870,454	231,172,410
		<b>296,423,908</b>	<b>266,676,245</b>
<b>Non-Current Assets</b>			
Investment property	4	735,067	815,707
Property, plant and equipment	5	359,378,810	311,743,721
Intangible assets	6	80,414	154,876
Heritage assets	7	78,888	78,888
		<b>360,273,179</b>	<b>312,793,192</b>
<b>Total Assets</b>		<b>656,697,087</b>	<b>579,469,437</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	17	20,441,353	18,572,356
Consumer deposits	18	492,075	503,589
Unspent conditional grants and receipts	15	1,973,004	4,916,138
Provisions	16	6,590,366	5,588,973
Employee benefit obligation -current portion		365,934	112,188
Bank overdraft	13	-	1,925
		<b>29,862,732</b>	<b>29,695,169</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	8	2,243,453	1,832,771
Provisions	16	1,088,865	1,031,571
		<b>3,332,318</b>	<b>2,864,342</b>
<b>Total Liabilities</b>		<b>33,195,050</b>	<b>32,559,511</b>
<b>Net Assets</b>		<b>623,502,037</b>	<b>546,909,926</b>
Reserves			
Housing Development Fund	14	120,032	112,725
Accumulated surplus		623,382,005	546,797,201
<b>Total Net Assets</b>		<b>623,502,037</b>	<b>546,909,926</b>

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	20	15,935,101	12,747,470
Rental of facilities and equipment		566,912	501,745
Interest received (trading)		439,877	597,266
Miscellaneous other revenue		621,564	1,169,877
Commissions received		146,352	115,534
Interest received - investment	22	19,045,646	16,916,977
<b>Total revenue from exchange transactions</b>		<b>36,755,452</b>	<b>32,048,869</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	23	36,992,498	18,181,392
Property rates - penalties imposed	23	2,108,428	1,389,933
Licences and Permits (Non-exchange)		884,420	859,238
<b>Transfer revenue</b>			
Government grants & subsidies	24	179,770,363	154,605,199
Fines, Penalties and Forfeits		794,780	708,263
<b>Total revenue from non-exchange transactions</b>		<b>220,550,489</b>	<b>175,744,025</b>
<b>Total revenue</b>	19	<b>257,305,941</b>	<b>207,792,894</b>
<b>Expenditure</b>			
Employee Costs	25	(63,729,345)	(48,726,856)
Remuneration of councillors	26	(11,224,159)	(10,885,290)
Depreciation and amortisation	27	(19,970,220)	(18,228,900)
Impairment loss	28	-	2,368
Lease rentals on operating lease		(234,183)	(196,610)
Debt Impairment	29	(6,115,167)	(2,355,110)
Bulk purchases	30	(19,006,399)	(17,550,876)
Contracted services	31	(6,309,120)	(4,839,576)
Loss on disposal of assets and liabilities		(425,825)	(138,545)
General Expenses	32	(47,269,133)	(38,223,287)
<b>Total expenditure</b>		<b>(174,283,551)</b>	<b>(141,142,682)</b>
<b>Surplus for the year</b>		<b>83,022,390</b>	<b>66,650,212</b>

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Statement of Changes in Net Assets

Figures in Rand	Housing Development Fund	Accumulated surplus	Total net assets
<b>Balance at July 1, 2017</b>	<b>106,440</b>	<b>488,349,527</b>	<b>488,455,967</b>
Changes in net assets			
Surplus for the year	6,285	66,650,212	66,656,497
Prior year adjustment	-	(8,202,538)	(8,202,538)
Total changes	6,285	58,447,674	58,453,959
Opening balance as previously reported	112,725	538,725,006	538,837,731
Adjustments			
Prior year adjustments	-	1,634,609	1,634,609
<b>Balance at July 1, 2018 as restated*</b>	<b>112,725</b>	<b>540,359,615</b>	<b>540,472,340</b>
Changes in net assets			
Surplus for the year	7,307	83,022,390	83,029,697
Total changes	7,307	83,022,390	83,029,697
<b>Balance at June 30, 2019</b>	<b>120,032</b>	<b>623,382,005</b>	<b>623,502,037</b>
Note(s)	14&40		



# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Cash Flow Statement

Figures in Rand	Note(s)	2019	2018
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		13,583,630	15,393,864
Grants		179,770,363	155,313,462
Interest income		19,045,646	16,916,977
Other receipts		15,467,478	28,033,990
		<u>227,867,117</u>	<u>215,658,293</u>
<b>Payments</b>			
Employee costs		(74,965,565)	(59,487,427)
Suppliers		(63,141,714)	(56,864,170)
		<u>(138,107,279)</u>	<u>(116,351,597)</u>
<b>Undefined difference compared to the cash generated from operations note</b>		<b>(10,362,600)</b>	<b>-</b>
<b>Net cash flows from operating activities</b>	35	<b>79,397,238</b>	<b>99,306,696</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(63,401,817)	(36,046,102)
Proceeds from sale of property, plant and equipment	5	(295,452)	(8,172)
<b>Net cash flows from investing activities</b>		<b>(63,697,269)</b>	<b>(36,054,274)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>15,699,969</b>	<b>63,252,422</b>
Cash and cash equivalents at the beginning of the year		231,170,485	168,059,336
<b>Cash and cash equivalents at the end of the year</b>	13	<b>246,870,454</b>	<b>231,311,758</b>

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	14,398,208	(294,600)	<b>14,103,608</b>	15,935,101	<b>1,831,493</b>	47
Rental of facilities and equipment	507,000	(4,492)	<b>502,508</b>	566,912	<b>64,404</b>	47
Interest received (trading)	611,288	121,989	<b>733,277</b>	439,877	<b>(293,400)</b>	
Licences and permits	350,000	70,000	<b>420,000</b>	-	<b>(420,000)</b>	47
Miscellaneous other revenue	1,653,657	(490,739)	<b>1,162,918</b>	621,564	<b>(541,354)</b>	47
Commissions received	126,900	10,000	<b>136,900</b>	146,352	<b>9,452</b>	47
Interest received - investment	16,700,000	950,000	<b>17,650,000</b>	19,045,646	<b>1,395,646</b>	47
<b>Total revenue from exchange transactions</b>	<b>34,347,053</b>	<b>362,158</b>	<b>34,709,211</b>	<b>36,755,452</b>	<b>2,046,241</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	20,908,127	15,305,657	<b>36,213,784</b>	36,992,498	<b>778,714</b>	47
Property rates - penalties imposed	100,000	1,190,000	<b>1,290,000</b>	2,108,428	<b>818,428</b>	47
Licences and Permits (Non-exchange)	981,000	(620,000)	<b>361,000</b>	884,420	<b>523,420</b>	

##### Transfer revenue

Government grants & subsidies	166,246,000	7,949,000	<b>174,195,000</b>	179,770,363	<b>5,575,363</b>	47
Fines, Penalties and Forfeits	241,583	490,000	<b>731,583</b>	794,780	<b>63,197</b>	47
<b>Total revenue from non-exchange transactions</b>	<b>188,476,710</b>	<b>24,314,657</b>	<b>212,791,367</b>	<b>220,550,489</b>	<b>7,759,122</b>	
<b>Total revenue</b>	<b>222,823,763</b>	<b>24,676,815</b>	<b>247,500,578</b>	<b>257,305,941</b>	<b>9,805,363</b>	

#### Expenditure

Personnel	(72,486,722)	8,036,150	<b>(64,450,572)</b>	(63,729,345)	<b>721,227</b>	
Remuneration of councillors	(11,260,645)	(729,020)	<b>(11,989,665)</b>	(11,224,159)	<b>765,506</b>	
Depreciation and amortisation	(11,794,000)	(9,000,000)	<b>(20,794,000)</b>	(19,970,220)	<b>823,780</b>	
Lease rentals on operating lease	(414,000)	160,000	<b>(254,000)</b>	(234,183)	<b>19,817</b>	
Debt Impairment	(4,223,900)	(2,000,000)	<b>(6,223,900)</b>	(6,115,167)	<b>108,733</b>	
Repairs and maintenance	(3,500,000)	-	<b>(3,500,000)</b>	(2,627,083)	<b>872,917</b>	
Bulk purchases	(16,200,000)	(4,000,000)	<b>(20,200,000)</b>	(19,006,399)	<b>1,193,601</b>	
Contracted Services	(4,560,000)	(1,761,578)	<b>(6,321,578)</b>	(6,309,120)	<b>12,458</b>	
Transfers and Subsidies	(1,800,000)	(643,281)	<b>(2,443,281)</b>	-	<b>2,443,281</b>	
General Expenses	(79,267,073)	3,702,522	<b>(75,564,551)</b>	(44,642,050)	<b>30,922,501</b>	
<b>Total expenditure</b>	<b>(205,506,340)</b>	<b>(6,235,207)</b>	<b>(211,741,547)</b>	<b>(173,857,726)</b>	<b>37,883,821</b>	
<b>Operating surplus</b>	<b>17,317,423</b>	<b>18,441,608</b>	<b>35,759,031</b>	<b>83,448,215</b>	<b>47,689,184</b>	
Loss on disposal of assets and liabilities	-	-	-	(425,825)	<b>(425,825)</b>	
<b>Surplus</b>	<b>17,317,423</b>	<b>18,441,608</b>	<b>35,759,031</b>	<b>83,022,390</b>	<b>47,263,359</b>	

## Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>17,317,423</b>	<b>18,441,608</b>	<b>35,759,031</b>	<b>83,022,390</b>	<b>47,263,359</b>	

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	1,079,883	-	1,079,883	874,272	(205,611)	47
Receivables from exchange transactions	2,224,000	-	2,224,000	169,921	(2,054,079)	47
Receivables from non-exchange transactions	39,243,722	-	39,243,722	39,933,032	689,310	47
VAT receivable	-	-	-	4,462,410	4,462,410	47
Prepayments	-	-	-	745,382	745,382	Appendix E(1)
Cash and cash equivalents	79,206,746	59,262,254	138,469,000	246,870,454	108,401,454	47
	<b>121,754,351</b>	<b>59,262,254</b>	<b>181,016,605</b>	<b>293,055,471</b>	<b>112,038,866</b>	

##### Non-Current Assets

Investment property	3,115,000	-	3,115,000	735,067	(2,379,933)	
Property, plant and equipment	604,975,248	(1,962,518)	603,012,730	359,378,810	(243,633,920)	
Intangible assets	1,018,418	-	1,018,418	80,414	(938,004)	
Heritage assets	78,880	-	78,880	78,888	8	
	<b>609,187,546</b>	<b>(1,962,518)</b>	<b>607,225,028</b>	<b>360,273,179</b>	<b>(246,951,849)</b>	

##### Total Assets

	<b>730,941,897</b>	<b>57,299,736</b>	<b>788,241,633</b>	<b>653,328,650</b>	<b>(134,912,983)</b>	
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#### Liabilities

##### Current Liabilities

Payables from exchange transactions	7,853,032	-	7,853,032	20,441,350	12,588,318	47
Consumer deposits	523,102	-	523,102	492,075	(31,027)	47
Unspent conditional grants and receipts	1,215,702	-	1,215,702	1,973,004	757,302	47
Provisions	3,781,982	-	3,781,982	6,590,366	2,808,384	47
Employee benefit obligation - current portion	-	-	-	365,934	365,934	47
	<b>13,373,818</b>	<b>-</b>	<b>13,373,818</b>	<b>29,862,729</b>	<b>16,488,911</b>	

##### Non-Current Liabilities

Employee benefit obligation	1,521,684	-	1,521,684	2,243,453	721,769	47
Provisions	-	-	-	1,088,865	1,088,865	

	<b>1,521,684</b>	<b>-</b>	<b>1,521,684</b>	<b>3,332,318</b>	<b>1,810,634</b>	
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##### Total Liabilities

	<b>14,895,502</b>	<b>-</b>	<b>14,895,502</b>	<b>33,195,047</b>	<b>18,299,545</b>	
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##### Net Assets

	<b>716,046,395</b>	<b>57,299,736</b>	<b>773,346,131</b>	<b>620,133,603</b>	<b>(153,212,528)</b>	
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#### Net Assets

##### Net Assets

##### Reserves

Housing Development	-	-	-	120,032	120,032	47
Accumulated surplus	-	-	-	623,382,004	623,382,004	47
<b>Total Net Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>623,502,036</b>	<b>623,502,036</b>	

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention.

The principal accounting policies adopted in the preparation of these annual financial statements are set out below:

- GRAP 1 Presentation of Financial Statement
- GRAP 2 Cash Flow Statements
- GRAP 3 Accounting Policies, Changes in Accounting Estimates and Error
- GRAP 5 Borrowing Costs
- GRAP 9 Revenue from Exchange Transactions
- GRAP 12 Inventories
- GRAP 13 Leases
- GRAP 14 Events after the Reporting Date
- GRAP 16 Investment property
- GRAP 17 Property, Plant and Equipment
- GRAP 19 Provisions, Contingent Liabilities and Contingent Asset
- GRAP 21 Impairment of non-cash generating asset
- GRAP 23 Revenue from Non-exchange transactions
- GRAP 24 Presentation of budget information
- GRAP 25 Employee benefits
- GRAP 26 Impairment of cash generating assets
- GRAP 31 Intangible Assets
- GRAP 103 Heritage Assets
- GRAP 104 Financial Instruments
- IGRAP 1 Interpretation on the treatment of traffic fines

The following GRAP standards have been issued but are not yet effective and have not been adopted early by the municipality:

- GRAP 18 Segment Reporting
- GRAP 20 Related Party Disclosures
- GRAP 32 Standard of GRAP on Service Concession Arrangements: Grantor
- GRAP 108 Statutory Receivables
- GRAP 109 Accounting by Principals and Agents t Liabilities and Contingent Asset

The following GRAP standards have been issued and effective but are not applicable to the municipality:

- GRAP 4 The effects of changes in foreign exchange rates
- GRAP 6 Consolidated and separate financial statements
- GRAP 7 Investments in associate
- GRAP 8 Interest in joint ventures
- GRAP 10 Financial reporting in hyperinflationary economics

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgements is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or,
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is derecognised on disposal, or when the investment property is permanently withdrawn from use and no future economic benefits or service potential is expected from its disposal. Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal."

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
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# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Accounting Policies

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### 1.4 Investment property (continued)

Property - land	indefinite
Property - buildings	30 years

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 4).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 4).

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

# Nquthu Local Municipality

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## Accounting Policies

### 1.5 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30
Plant and machinery	Straight line	3-10
Furniture and fixtures	Straight line	3-10
Motor vehicles	Straight line	5-12
IT equipment	Straight line	5
Infrastructure Roads & Stormwater	Straight line	5-80
Community	Straight line	30
Infrastructure Electricity	Straight line	30
Investment property	Straight line	30

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 5).



## Accounting Policies

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### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

### 1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 7).

## Accounting Policies

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### 1.7 Heritage assets (continued)

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

### 1.8 Financial instruments

#### Classification and derecognition

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

The municipality derecognises a financial asset when and only when; the rights to the cash flows from the financial asset expire; or it transfers the financial asset and the transfer qualifies for derecognition. The municipality first needs to evaluate the extent to which it retains the risks and rewards of ownership of the financial asset.

The municipality transfers a financial asset if and only if: the rights to receive cash flows from the asset have expired, or if the municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either the municipality has transferred substantially all the risks and rewards of the asset, or the municipality has neither transferred nor retained substantially all the risks and rewards of the asset.

The municipality removes a financial liability (or part of financial liability) from its statement of financial position when, and only when, it is extinguished i.e. when the obligation specified in the contract is discharged or called or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishing of the original financial liability and the recognition of a new financial liability.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

#### Receivables from exchange transactions

Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 150 days overdue) are considered indicators that the trade receivable is impaired.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against surplus or deficit.

#### Payables from exchange transactions

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

#### Cash and cash equivalents

## Accounting Policies

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### 1.8 Financial instruments (continued)

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially recorded at amortised cost and are subsequently measured at amortised cost using the effective interest rate method.

#### Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

## Accounting Policies

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### 1.10 Inventories (continued)

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgments made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

### 1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

## Accounting Policies

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### 1.12 Impairment of non-cash-generating assets (continued)

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgments made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

### 1.13 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

#### Defined contribution plans

The Municipality and its employees contribute to the Natal Joint Municipal Pension Fund, KwaZulu-Natal Joint Municipal Provident Fund (NJMPF) and the Government Employees Pension Fund (GEPF) which provides retirement benefits to such employees. The retirement benefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No. 24 of 1973) and in accordance with the requirements of the Pension Fund Act, 1956. Current contributions are charged against operating income on the basis of current service costs. Full actuarial valuations are performed every three years.

Whilst employees are employed by the municipality, the municipality contributes to their pension funds and medical aids. On termination, resignation or retirement of employees the municipality no longer contributes on their behalf and thus there are no post employment benefits.

#### Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

## Accounting Policies

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### 1.13 Employee benefits (continued)

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

### Long-service Allowance

The Municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the Municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The Municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

### 1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

Contingent assets and contingent liabilities are not recognised.

The municipality has a landfill site, although this has been since been discontinued to function due to environmental concerns.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgemental. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

### 1.16 Interest and rental income

Interest is recognised using the effective interest rate method. Rentals are recognised on a time proportion basis.

### 1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

## Accounting Policies

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### 1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure is also any expenditure incurred in contravention of the municipality's supply chain management policy.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item to be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.



## Accounting Policies

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### 1.22 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgemental in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgemental or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2018 to 6/30/2019.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.24 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

## **Accounting Policies**

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### **1.25 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### **1.26 Commitments**

The municipality at the end of the reporting period will have commitments in relation to the transactions in progress that will be finished after reporting date.

These will be disclosed in the commitments indicating if they are contracted or not. The property, plant and equipment note will also detail those projects that are under construction as at reporting date.

The commitment will arise either if the transaction was concluded at year-end or not in relation to the signing of the contract. If the bidding process is still under way the commitment will also be raised.

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

### 3. New standards and interpretations

#### 3.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
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#### 3.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2019 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
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# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1,999,640	(1,264,573)	735,067	1,999,640	(1,183,933)	815,707

### Reconciliation of investment property - 2019

	Opening balance	Depreciation	Total
Investment property	815,707	(80,640)	735,067

### Reconciliation of investment property - 2018

	Opening balance	Depreciation	Total
Investment property	884,356	(68,649)	815,707

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 4. Investment property (continued)

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 5. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	20,670,061	-	20,670,061	13,270,852	-	13,270,852
Buildings	159,225,619	(23,207,614)	136,018,005	134,732,373	(18,547,796)	116,184,577
Plant and machinery	6,778,543	(3,219,868)	3,558,675	5,690,233	(2,947,726)	2,742,507
Furniture and fixtures	4,704,069	(3,243,151)	1,460,918	4,757,484	(2,976,729)	1,780,755
Motor vehicles	33,135,676	(15,170,555)	17,965,121	28,440,276	(12,462,617)	15,977,659
IT equipment	2,487,944	(1,746,099)	741,845	2,612,172	(1,753,425)	858,747
Infrastructure Roads & Stormwater	201,853,434	(45,887,240)	155,966,194	189,488,739	(38,215,246)	151,273,493
Community	4,811,034	(1,929,243)	2,881,791	3,092,494	(1,779,239)	1,313,255
Infrastructure Electricity	27,907,144	(7,790,944)	20,116,200	15,862,893	(7,521,017)	8,341,876
<b>Total</b>	<b>461,573,524</b>	<b>(102,194,714)</b>	<b>359,378,810</b>	<b>397,947,516</b>	<b>(86,203,795)</b>	<b>311,743,721</b>

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 5. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2019

	Opening balance	Difference	Additions	Transfers	Disposals	Other changes, movements	Depreciation	Impairment reversal	Total
Land	13,270,852	<b>7,399,209</b>	-	-	-	-	-	-	20,670,061
Buildings	116,184,577	<b>(7,417,230)</b>	-	6,150,983	-	25,687,372	(4,587,697)	-	136,018,005
Plant and machinery	2,742,507	-	1,152,600	-	(5,080)	-	(331,352)	-	3,558,675
Furniture and fixtures	1,780,755	-	12,725	-	(11,563)	58,738	(380,599)	862	1,460,918
Motor vehicles	15,977,659	-	5,536,929	-	(193,276)	-	(3,356,191)	-	17,965,121
IT equipment	858,747	-	-	-	(32,478)	123,697	(208,121)	-	741,845
Infrastructure Roads & Stormwater	151,273,493	-	-	3,859,018	-	11,297,335	(10,463,652)	-	155,966,194
Community	1,313,255	-	-	-	-	1,709,989	(141,453)	-	2,881,791
Infrastructure Electricity	8,341,876	-	-	15,293,329	-	(3,160,416)	(358,589)	-	20,116,200
	<b>311,743,721</b>	<b>(18,021)</b>	<b>6,702,254</b>	<b>25,303,330</b>	<b>(242,397)</b>	<b>35,716,715</b>	<b>(19,827,654)</b>	<b>862</b>	<b>359,378,810</b>

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 5. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfers	Disposals	Depreciation	Impairment loss	Impairment reversal	Total
Land	13,270,852	-	-	-	-	-	-	13,270,852
Buildings	107,023,755	1,568,124	11,748,967	-	(4,158,637)	-	2,368	116,184,577
Plant and machinery	3,115,352	25,999	-	(2,780)	(391,331)	(4,733)	-	2,742,507
Furniture and fixtures	1,536,344	749,358	-	(30,132)	(473,743)	(1,072)	-	1,780,755
Motor vehicles	17,876,442	1,048,802	-	-	(2,947,585)	-	-	15,977,659
IT equipment	1,250,399	73,497	-	(97,461)	(367,688)	-	-	858,747
Infrastructure Roads & Stormwater	139,299,750	1,347,633	19,483,722	-	(8,857,612)	-	-	151,273,493
Community	1,450,144	-	-	-	(136,889)	-	-	1,313,255
Infrastructure Electricity	8,952,906	-	-	-	(611,030)	-	-	8,341,876
	<b>293,775,944</b>	<b>4,813,413</b>	<b>31,232,689</b>	<b>(130,373)</b>	<b>(17,944,515)</b>	<b>(5,805)</b>	<b>2,368</b>	<b>311,743,721</b>

#### Pledged as security

There are no assets pledged as security.

#### Details of properties

A comprehensive Fixed Asset Register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The majority of municipal roads are gravel roads mainly constructed from the MIG and internally generated funding.



# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 5. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Total
Opening balance	43,037,535	20,174,432	63,211,967
Additions/capital expenditure	36,631,268	20,068,295	56,699,563
Transferred to completed items	(23,123,974)	(6,150,983)	(29,274,957)
	<b>56,544,829</b>	<b>34,091,744</b>	<b>90,636,573</b>

#### Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Total
Opening balance	25,008,007	15,683,364	40,691,371
Additions/capital expenditure	24,271,541	6,961,146	31,232,687
Transferred to completed items	(6,242,013)	(2,470,078)	(8,712,091)
	<b>43,037,535</b>	<b>20,174,432</b>	<b>63,211,967</b>

#### Expenditure incurred to repair and maintain property, plant and equipment

#### Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

General expenses	2,457,349	2,010,772
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 6. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	623,878	(543,464)	80,414	623,878	(469,002)	154,876

#### Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software, other	154,876	(74,462)	80,414

#### Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	229,338	(74,462)	154,876

#### Pledged as security

There are no intangible assets pledged as security:

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 7. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	78,888	-	78,888	78,888	-	78,888

### 8. Employee benefit obligations

#### Defined benefit plan

#### Long Service Award (LSA)

The Municipality offers employees Long Service Award (LSA) for every five years of service completed, from ten years of service to 45 years of service, inclusive.

The full actuarial report is available for inspection at municipal offices.

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(1,832,771)	(1,832,771)
Present value of the defined benefit obligation-partly or wholly funded	(410,682)	-
	<b>(2,243,453)</b>	<b>(1,832,771)</b>

[Provide a brief description of the link between the reimbursement right(s) and the related obligation]

The fair value of plan assets includes:

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 8. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	3,259,553	2,836,278
Net expense recognised in the statement of financial performance	408,898	423,275
	<b>3,668,451</b>	<b>3,259,553</b>

#### Net expense recognised in the statement of financial performance

Current service cost	244,843	194,379
Interest cost	164,055	133,662
Actuarial (gains) losses	-	95,234
	<b>408,898</b>	<b>423,275</b>

#### Calculation of actuarial gains and losses

##### Key assumptions used

##### Financial Assumptions

It is difficult to predict future investment returns and salary inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 8.29% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.29% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 3.01%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2019.

The liability-weighted average term of the total liability is 7.79 years.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award.

The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 4.64% was obtained from the differential between market yields on index-linked bonds (3.01%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.29%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as  $((1+8.29\%-0.50\%)/(1+3.01\%))-1$ .

Thus, a general salary inflation rate of 5.64% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.51%.

It has been assumed that the next salary increase will take place on 1 July 2020.

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>9. Inventories</b>		
Consumable stores	874,272	1,126,367
Inventories recognised as an expense during the year	1,062,194	771,817
<b>10. Receivables from exchange transactions</b>		
Sundry debtors	169,921	169,921
Consumer debtors - Electricity	2,243,289	1,281,473
Consumer debtors - Refuse	12,971,227	12,277,875
Consumer debtors - Market Stalls	1,142,436	902,611
Debt Impairment	(12,988,515)	(10,463,663)
	<b>3,538,358</b>	<b>4,168,217</b>
<b>Electricity</b>		
Current (0 -30 days)	959,454	882,407
31 - 60 days	93,046	40,423
61 - 90 days	89,683	27,078
91 - 120 days	87,765	17,156
121 - 365 days	665,864	54,108
> 365 days	347,478	260,301
	<b>2,243,290</b>	<b>1,281,473</b>
<b>Summary of debtors by customer classification - Electricity</b>		
Households	111,809	111,429
Commercial	871,885	911,985
National and provincial government	1,172,531	236,265
Other	87,064	21,794
	<b>2,243,289</b>	<b>1,281,473</b>
<b>Refuse</b>		
Current (0 -30 days)	157,919	121,561
31 - 60 days	86,365	82,765
61 - 90 days	68,148	64,015
91 - 120 days	62,449	77,846
121 - 365 days	425,443	394,842
> 365 days	12,170,903	11,536,846
	<b>12,971,227</b>	<b>12,277,875</b>
<b>Summary of debtors by customer classification - Refuse</b>		
Households	2,489,200	2,534,173
Commercial	19,357	110,406
National and provincial government	10,459,992	9,628,326
Other	2,678	4,970
	<b>12,971,227</b>	<b>12,277,875</b>

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 10. Receivables from exchange transactions (continued)

#### Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At June 30, 2019, R 1,578,762 (2018: R758,233) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	179,411	123,188
2 months past due	157,831	91,093
3 months past due	150,214	95,002
	1,091,306	448,950

#### Reconciliation of provision for impairment of trade and other receivables

Opening balance	(10,463,663)	(9,108,553)
Provision for impairment	(2,524,852)	(1,355,110)
	<b>(12,988,515)</b>	<b>(10,463,663)</b>

### 11. Receivables from non-exchange transactions

Fines	3,206,940	2,452,810
INEP grant debtor(DOE)	9,345,562	3,747,744
Property Rates	37,855,562	22,747,873
Other receivables from non-exchange	71,561	1,699,597
Provision for impairment	(7,500,000)	(3,577,052)
Provision for impairment - traffic fines	(3,046,593)	(1,634,611)
	<b>39,933,032</b>	<b>25,436,361</b>

#### Property Rates

Current (0 -30 days)	234,777	129,160
31 - 60 days	515,811	144,168
61 - 90 days	1,562,748	899,492
91 - 120 days	1,454,128	868,480
121 - 365 days	11,077,126	6,255,001
> 365 days	23,010,972	14,451,572
	<b>37,855,562</b>	<b>22,747,873</b>

#### Summary of debtors by customer classification

Households	2,214,370	1,986,100
Commercial	759,600	831,560
National and provincial government	27,284,079	15,603,986
Other	7,597,513	4,326,227
	<b>37,855,562</b>	<b>22,747,873</b>

#### Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At June 30, 2019, R 14,609,813 (2018: R 8,167,141) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	515,811	144,168
2 months past due	1,562,748	899,492
3 months past due	1,454,128	868,480
	11,077,126	6,255,001

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 11. Receivables from non-exchange transactions (continued)

#### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(5,211,663)	(5,211,663)
Provision for impairment	(5,334,930)	-
	<b>(10,546,593)</b>	<b>(5,211,663)</b>

High debt on the rates is due to the state owned properties that are in the process of being donated to the municipality. Although the donation has been signed by the two parties, the actual transfers have not materialised and as such the rates and refuse charges are still being raised to the relevant department, further the Department of Human Settlement is not prepared to pay the bills raised citing that all obligations on these properties were transferred to the municipality but the municipality cannot deem this as municipal property and charges are raised and full provision for impairment is also made. The donation agreement and the list of all affected properties are available for inspection at municipal offices.

The INEP grant debtor is caused by invoices that the municipality paid from own when grant allocation for the year was used and will be off-set from next year allocation, this is done to avoid contractors leaving the site which can cause vandalism and new site establishment and disestablishment costs.

### 12. VAT receivable

VAT	4,462,410	4,084,624
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### 13. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	11,168,015	12,292,521
Short-term deposits	235,702,439	218,879,889
Bank overdraft	-	(1,925)
	<b>246,870,454</b>	<b>231,170,485</b>
Current assets	246,870,454	231,172,410
Current liabilities	-	(1,925)
	<b>246,870,454</b>	<b>231,170,485</b>

#### Investments

ABSA NOTICE SELECT A/C	97,268,682	45,752,036
Absa Call A/C Housing	1,043,463	112,725
Absa Investment	4,699,384	16,233,422
Fnb Call A/C	7,799,075	7,566,558
Fnb Investment	25,909,409	30,564,973
Investec Investment	51,022,723	53,815,390
Nedbank Investment	22,613,500	38,152,053
Standard Bank Investment	25,346,202	23,567,834
Absa Call A/C Incubator	-	429,037
Absa Call A/C Electrification	-	2,685,862
	<b>235,702,438</b>	<b>218,879,890</b>

Funds not immediately available are invested with commercial banks in terms of the Cash and Investment policy and Municipal Investment Regulations.

Some other conditional grants agreements require that a separate investment (call account) be opened for them so that interest can be easily identified and accrued to the grant. These being the individual investments mentioned above and the remainder of investments is made up of own cash reserves and those grants not requiring separate investments account.

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 13. Cash and cash equivalents (continued)

#### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

#### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2019	June 30, 2018	June 30, 2017
ABSA BANK - ChequeAccount -405- 3562-762	10,904,282	12,001,307	2,765,933	10,904,282	12,001,307	2,702,602
ABSA BANK - Savings Account - 914-2845-014	239,234	289,208	273,083	239,234	289,208	273,083
<b>Total</b>	<b>11,143,516</b>	<b>12,290,515</b>	<b>3,039,016</b>	<b>11,143,516</b>	<b>12,290,515</b>	<b>2,975,685</b>

### 14. Statutory reserve

Housing Development Fund	120,032	112,725
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This fund is regulated by the agreements and directives that are issued by the Human settlement department and is having a dedicated bank account.

### 15. Unspent conditional grants and receipts

#### Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Government Grant	23,974	23,974
Capacity Building	40,882	40,882
MFMA Grant	2,602	2,602
Cybercadet	1,733	220,147
Municipal Infrastructure Grant	-	2,868,645
COGTA Electrification grant	31,879	31,879
Bornem grant	-	836,728
Library Volunteer	180,773	128,773
Small business incubator grant	17,986	17,986
Sportsfield grant (Isilonjane)	20,331	20,331
Sportsfield Maintenance Grant	128,896	194,191
Unspent Library modular	600,539	530,000
Housing Title Deeds grant	923,409	-
	<b>1,973,004</b>	<b>4,916,138</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See Appendix F for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised. Other grants require that a separate investment account be opened and this has been complied with.

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 16. Provisions

#### Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Environmental rehabilitation	1,031,571	87,171	-	-	1,118,742
Leave pay provision	4,562,650	1,372,376	(75,207)	-	5,859,819
Bonus Provision	1,026,323	-	(387,942)	62,289	700,670
	<b>6,620,544</b>	<b>1,459,547</b>	<b>(463,149)</b>	<b>62,289</b>	<b>7,679,231</b>

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	193,766	837,805	-	1,031,571
Leave pay provision	3,588,216	1,039,293	(64,859)	4,562,650
Bonus Provision	542,507	483,816	-	1,026,323
	<b>4,324,489</b>	<b>2,360,914</b>	<b>(64,859)</b>	<b>6,620,544</b>

Non-current liabilities	1,088,865	1,031,571
Current liabilities	6,590,366	5,588,973
	<b>7,679,231</b>	<b>6,620,544</b>

#### Environmental rehabilitation provision

The municipality is required to provide for the rehabilitation of the landfill site after the end of its useful life. The cost to rehabilitate the landfill site has been estimated by the engineers to be R 500 000 and the remaining life is 10-12 years.

However in November 2012 the landfill site was permanently closed and no future use was permitted due to environmental regulations. The process to rehabilitate the land is underway. No new provisions are raised since this site is not utilised anymore.

The new landfill site was opened and is fully licensed , the provision for rehabilitation was done and the report is available for inspection.

#### Leave Provision

The leave pay provision is based on the number of days each employee has accrued at year-end in terms of the South African Local Government Bargaining Agreement, and is calculated at termination rate.

### 17. Payables from exchange transactions

Trade payables	11,400,482	12,268,186
Payments received in advanced	1,131,236	1,006,980
Pro-rata Accrued bonus	1,502,621	1,253,101
Other payables	143,486	151,863
Retentions	6,263,528	3,892,226
	<b>20,441,353</b>	<b>18,572,356</b>

The high increase in the Trade payables is due to the late approval of MIG invoices by COGTA where such was only approved and subsequently paid after the year-end. Bonus accrue to staff on an annual basis based on their anniversary month. The provision is an estimate of the amount payable to staff for the following year on a pro-rata basis. The timing of the amount is uncertain with regards to payment of pro-rata bonus when staff members resign.



# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>18. Consumer deposits</b>		
Electricity	439,567	452,081
Refuse	52,508	51,508
	<b>492,075</b>	<b>503,589</b>
<b>19. Revenue</b>		
Service charges	15,935,101	12,747,470
Rental of facilities and equipment	566,912	501,745
Interest received (trading)	439,877	597,266
Miscellaneous other revenue	621,564	1,169,877
Commissions received	146,352	115,534
Interest received - investment	19,045,646	16,916,977
Property rates	36,992,498	18,181,392
Property rates - penalties imposed	2,108,428	1,389,933
Government grants & subsidies	179,770,363	154,605,199
Fines, Penalties and Forfeits	794,780	708,263
	<b>256,421,521</b>	<b>206,933,656</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	15,935,101	12,747,470
Rental of facilities and equipment	566,912	501,745
Interest received (trading)	439,877	597,266
Miscellaneous other revenue	621,564	1,169,877
Commissions received	146,352	115,534
Interest received - investment	19,045,646	16,916,977
	<b>36,755,452</b>	<b>32,048,869</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	36,992,498	18,181,392
Property rates - penalties imposed	2,108,428	1,389,933
Licences or permits	884,420	859,238
<b>Transfer revenue</b>		
Government grants & subsidies	179,770,363	154,605,199
Fines, Penalties and Forfeits	794,780	708,263
	<b>220,550,489</b>	<b>175,744,025</b>
<b>20. Service charges</b>		
Sale of electricity	13,584,925	11,379,461
Refuse removal	2,350,176	1,368,009
	<b>15,935,101</b>	<b>12,747,470</b>
<b>21. Other revenue</b>		
Commissions received	146,352	115,534
<b>22. Investment revenue</b>		
Bank	19,045,646	16,916,977

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>23. Property rates</b>		
<b>Rates received</b>		
Residential	5,034,074	-
Commercial	1,009,437	20,782,421
State	27,305,527	-
Other categories	7,399,372	-
Less: Income forgone	(3,755,912)	(2,601,029)
	<b>36,992,498</b>	<b>18,181,392</b>
Property rates - penalties imposed	2,108,428	1,389,933
	<b>39,100,926</b>	<b>19,571,325</b>

### Valuations

Residential	670,899,000	452,598,500
Commercial	226,536,000	549,904,000
State	1,811,704,000	401,398,000
Municipal	107,016,000	32,975,000
	<b>2,816,155,000</b>	<b>1,436,875,500</b>

The municipality did a third General Valuation Roll that has been used for purposes of Property Rates for this reporting period. The high values in this financial year is caused by that and also the changes in categories as per the MPRA amendment.

A general rate of R 0.014 (2018:R 0.014) is applied to property valuations to determine assessment rates.

Rates are levied on an annual basis with the final date for payment being Friday, May 31, 2019 (Thursday, May 31, 2018). Interest at prime plus 2% per annum (2018:prime plus 2%), is levied on rates outstanding two months after due date.

Different rate randage are charged for different categories of rate payers. Primary statutory rebates is on first R 15 000 of property value, additional rebates were granted to all residential category of ratepayers as contained in the Council's approved Property Rates Policy for R 185 000 through reduction in value.

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 24. Government grants and subsidies

#### Operating grants

Equitable share	122,364,645	115,616,477
Cybercadet Grant	612,415	376,719
Municipal Finance Management Grant	1,900,000	1,874,506
Municipal Systems Improvement Grant	-	81,130
Library Support	2,717,461	1,449,802
Bornem Grant	2,392,731	541,737
Expanded Public Works Programme	1,016,860	1,003,001
DLGTA - IDP	-	172,531
Sportfield maintenance grant	65,296	129,738
	<b>131,069,408</b>	<b>121,245,641</b>

#### Capital grants

Municipal Infrastructure Grant	31,113,627	33,359,558
INEP grant	17,587,328	-
	<b>48,700,955</b>	<b>33,359,558</b>
	<b>179,770,363</b>	<b>154,605,199</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	57,405,680	35,860,986
Unconditional grants received	122,364,645	118,744,213
	<b>179,770,325</b>	<b>154,605,199</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All the residents with electricity get a Free Basic Electricity monthly allowance of 50kWh (2017: 50kWh), and relief is also provided to households who are indigent, pensioners and child-headed which is funded from the Equitable Share.

#### Municipal Government Grant

Balance unspent at beginning of year	23,974	23,974
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Conditions still to be met - remain liabilities (see note 15). Provincial Local Government grants are used to implement administrative and financial framework and to improve governance. The grants are spent in accordance with a business plan approved by the Provincial Government.

Provide explanations of conditions still to be met and other relevant information.

#### Capacity Building

Balance unspent at beginning of year	40,882	40,882
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Conditions still to be met - remain liabilities (see note 15). Provincial Local Government grants are used to implement administrative and financial framework and to provide a municipal infrastructure framework. The grants are spent in accordance with a business plan approved by the Provincial Government.

Provide explanations of conditions still to be met and other relevant information.

#### MFMA

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 24. Government grants and subsidies (continued)

Balance unspent at beginning of year	2,602	2,602
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Conditions still to be met - remain liabilities (see note 15).

#### Cybercadet Grant

Balance unspent at beginning of year	220,147	-
Current-year receipts	394,000	376,000
Conditions met - transferred to revenue	(612,414)	(376,719)
Other	-	220,866
	<b>1,733</b>	<b>220,147</b>

Conditions still to be met - remain liabilities (see note 15).

Library assistants are appointed and their salaries paid monthly. The department did not pay the allocations due to the municipality as gazetted, therefore all the expenditure incurred has been disclosed as debt due to the municipality.

Provincial Library Grants were allocated to subsidise the purchase of equipment for municipal libraries as well as contribution towards library staff salaries. Further funding was received for the installation of computer hardware and software for public Internet access, the cost of the Internet connectivity, furniture to house these computers and salaries for the employment of "cybercadets". The subsidies are spent in accordance with a business plan approved by the Provincial Government. No funds have been withheld.

#### Intergrated Development Plan Grant

Balance unspent at beginning of year	-	172,531
Conditions met - transferred to revenue	-	(172,531)
	-	-

Conditions still to be met - remain liabilities (see note 15).

Improvement in the IDP processes will be undertaken in the ensuing financial year..

#### Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	2,868,645	-
Current-year receipts	27,758,355	42,691,000
Conditions met - transferred to revenue	(30,627,000)	(39,822,355)
	<b>-</b>	<b>2,868,645</b>

Conditions still to be met - remain liabilities (see note 15). National Conditional Grant are allocated in terms of the Division of Revenue Act. This grant is used to construct roads infrastructure as part of the uplifting the community, 15% of the funds should be spent on the sports facilities.

The unspent grant of R 2.8 million for which the municipality applied for a formal rollover by National Treasury was rejected and this was off-set from our Equitable Share.

#### Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	-	81,129
Conditions met - transferred to revenue	-	(81,129)
	-	-

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 24. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 15). National Conditional Grant are allocated in terms of the Division of Revenue Act. The Municipal Systems Improvement Grant is used to assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation.

Provide explanations of conditions still to be met and other relevant information.

#### Municipal Finance Management Grant (MFMG)

Balance unspent at beginning of year	-	28,506
Current-year receipts	1,900,000	1,900,000
Conditions met - transferred to revenue	(1,900,000)	(1,928,506)
	-	-

Conditions still to be met - remain liabilities (see note 15).

National Conditional Grants are allocated in terms of the Division of Revenue Act. The Financial Management Grant is used to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

#### COGTA Massification (Electrification) grant

Balance unspent at beginning of year	31,879	31,879
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Conditions still to be met - remain liabilities (see note 15).

This is the the Provincial Government grants from the Co-operative Government and Traditional Affairs department to fund the electrification of households in wards 3, 10 and 13. The contractor is on site. This project is under the distribution licence area of Eskom and on commissioning it will be handed over to Eskom for operating.

#### Bornem grant

Balance unspent at beginning of year	836,728	523,702
Current-year receipts	1,556,002	854,763
Conditions met - transferred to revenue	(2,392,730)	(541,737)
	-	836,728

Conditions still to be met - remain liabilities (see note 15).

This grants is from the Bornem municipality in Belgium which the municipality has the city to city co-operation and they give us funding to implement projects of mutual interest like youth, children, education. Projects under the MOA are still outstanding and under SCM processes

#### Library Volunteer

Balance unspent at beginning of year	128,773	36,773
Current-year receipts	52,000	92,000
	180,773	128,773

Conditions still to be met - remain liabilities (see note 15).

The volunteers are appointed but and are getting their stipends monthly.

#### Small business incubator grant

Balance unspent at beginning of year	17,986	17,986
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# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>24. Government grants and subsidies (continued)</b>		
Conditions still to be met - remain liabilities (see note 15).		
This is the the Provincial Government grants from the Co-operative Government and Traditional Affairs department to fund the construction of the business incubator. The contractor is on site and finishing off the building for phase II.		
<b>Sportsfield grant (Isilonjane)</b>		
Balance unspent at beginning of year	20,331	20,331
Conditions still to be met - remain liabilities (see note 15).		
This is the the Provincial Government grants from the Sports and Recreation department to fund the refurbishment of Isilonjane Stadium. The stadium has been completed and these funds will be returned to the department should there be no further usage approved.		
<b>DOE Electrification Grant (INEP)</b>		
Balance unspent at beginning of year	-	39,295
Current-year receipts	14,035,000	24,000,000
Conditions met - transferred to revenue	(14,035,000)	(24,039,295)
	-	-
Conditions still to be met - remain liabilities (see note 15).g		
The contractor is on-site and the electrification is underway. Department of Minerals and Energy provided a grant in support of Electrification Projects. The grants are spent in accordance with an approved business plan. This project is under the distribution licence area of Eskom and on commissioning it will be handed over to Eskom for operating.		
<b>Extended Public Works Grant (EPWP)</b>		
Balance unspent at beginning of year	-	39,181
Current-year receipts	1,016,860	1,003,000
Conditions met - transferred to revenue	(1,016,860)	(1,042,181)
	-	-
Conditions still to be met - remain liabilities (see note 15). National Conditional Grants are allocated in terms of the Division of Revenue Act. The grant is to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in compliance with EPWP Guidelines.		
Provide explanations of conditions still to be met and other relevant information.		
<b>Library Support</b>		
Balance unspent at beginning of year	-	1
Current-year receipts	1,676,000	2,608,000
Conditions met - transferred to revenue	(1,676,000)	(2,608,001)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
Library support staff is appointed and their salaries paid monthly. The department did not pay the allocations due to the municipality as gazetted, therefore all the expenditure incurred has been disclosed as debt due to the municipality.		
<b>Modulor Library Support</b>		
Balance unspent at beginning of year	530,000	-

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>24. Government grants and subsidies (continued)</b>		
Current-year receipts	1,112,000	530,000
Conditions met - transferred to revenue	(1,041,461)	-
	<b>600,539</b>	<b>530,000</b>

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

### Human Settlement Grant

Current-year receipts	923,409	-
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Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2018), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>25. Employee related costs</b>		
Basic	43,592,099	36,143,963
Bonus	3,021,367	2,935,857
Medical aid - company contributions	1,992,314	1,548,697
UIF	375,142	307,253
SDL	524,485	386,278
Leave pay provision charge	1,406,401	1,039,295
Group Life Insurance	4,106	5,474
Defined contribution plans	4,956,848	3,954,116
Overtime payments	1,885,175	1,904,160
Long-service awards	843,159	411,036
Housing benefits and allowances	51,993	35,848
SALGBC Levies	23,618	18,787
Cell Phone Allowance	14,400	24,092
	<b>58,691,107</b>	<b>48,714,856</b>

The salaries of the Senior Management detailed below are not included in the overall salary cost above. The municipality implemented the Results of Job Evaluation during the reporting period which caused an average increase of R 8 million in the salary cost.

### Remuneration of municipal manager

Annual Remuneration	1,264,602	1,199,812
Performance Bonuses	113,814	-
Contributions to UIF, Medical and Pension Funds	15,272	13,486
Cellphone Allowance	12,000	12,000
	<b>1,405,688</b>	<b>1,405,688</b>

The performance bonus is only a provision subject to the performance assessment.

### Remuneration of chief finance officer

Annual Remuneration	1,113,754	1,056,693
Performance Bonuses	100,238	-
Contributions to UIF, Medical and Pension Funds	13,553	11,980
Other	6,000	6,000
	<b>1,233,545</b>	<b>1,074,673</b>

The performance bonus is only a provision subject to the performance assessment.

### Director Planning and Economic Development

Annual Remuneration	1,003,600	952,182
Performance Bonuses	70,252	-
Contributions to UIF, Medical and Pension Funds	12,444	11,227
Cellphone Allowance	6,000	6,000
	<b>1,092,296</b>	<b>969,409</b>

### Corporate and human resources (corporate services)

Annual Remuneration	811,416	256,615
Contributions to UIF, Medical and Pension Funds	9,659	3,081
	<b>821,075</b>	<b>259,696</b>

The performance bonus is only a provision subject to the performance assessment.



# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>25. Employee related costs (continued)</b>		
<b>Director Technical Services</b>		
Annual Remuneration	811,416	156,315
Contributions to UIF, Medical and Pension Funds	9,898	1,840
Other	-	692
	<b>821,314</b>	<b>158,847</b>
<b>26. Remuneration of councillors</b>		
Executive Mayor	840,313	636,995
Deputy Executive Mayor	681,131	518,475
Mayoral Committee Members	1,509,672	1,515,050
Speaker	399,612	399,612
Councillors	7,725,188	7,748,965
Contributions to UIF and SDL	68,243	66,193
	<b>11,224,159</b>	<b>10,885,290</b>
<b>In-kind benefits</b>		
<p>The MEC for Local Government designated three political offices to be full-time i.e. Mayor, Deputy Mayor and Speaker, however the Speaker is currently not utilising this as he is currently in full-time state employment. The Mayor, Deputy Mayor and Speaker are provided with an office and individual secretarial support at the cost of the Council while all other councillors share the secretariat.</p> <p>The Mayor, Deputy Mayor and Speaker have the use of Council owned vehicle for official duties, they have full-time drivers and bodyguards as per their tools of trade.</p> <p>The Mayor has three full-time bodyguards. The Deputy Mayor and speaker both have two full-time bodyguards.</p> <p>The Councillor allowances are as per the Government Notice No. R 1426 dated 21 December 2018 and approved by the MEC for CoGTA at 95% of upper-limits as applicable to grade 3 for part-time and full-time councillors where applicable, this meant they got a zero increase and their allowances should be the same as prior year.</p>		
<b>27. Depreciation and amortisation</b>		
Property, plant and equipment	19,895,758	18,228,900
Intangible assets	74,462	-
	<b>19,970,220</b>	<b>18,228,900</b>
<b>28. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	-	(2,368)
<b>29. Debt impairment</b>		
Contributions to debt impairment provision	6,115,167	2,355,110
<b>30. Bulk purchases</b>		
Electricity - Eskom	19,006,399	17,550,876

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>31. Contracted services</b>		
<b>Presented previously</b>		
Security	6,309,120	4,839,576
<b>32. General expenses</b>		
Advertising	142,116	342,259
Auditors remuneration	2,512,588	3,451,699
Bank charges	146,060	138,498
Cleaning	1,072,300	324,352
Commission paid	137,625	118,171
Consulting and professional fees	6,177,809	5,114,005
Consumables	1,169,530	896,344
Entertainment	90,610	90,463
Disaster Management	812,669	1,218,800
Hire	941,000	109,600
Insurance	668,022	652,791
Youth development and training	9,361,270	6,853,823
Conferences and seminars	46,374	15,525
IT expenses	1,460,524	1,125,076
Publicity	881,373	785,547
Promotions and sponsorships	715,591	451,702
Medical expenses	24,500	-
Motor vehicle expenses	236,660	63,125
Fuel and oil	2,141,064	1,741,133
Printing and stationery	393,859	631,995
Community Development Projects	2,243,023	1,260,109
Repairs and maintenance	2,627,083	2,010,773
Software expenses	967,429	891,774
Subscriptions and membership fees	688,266	125,040
Telephone and fax	300,172	281,477
Training	1,047,582	429,035
Travel - local	2,528,556	2,481,844
Electricity	836,791	447,163
Water	367,198	686,281
Uniforms	797,568	420,195
Tourism development	427,745	267,496
Audit Committee	784,124	101,439
Indigent Support( FBE)	2,407,316	2,346,878
Ward Committees Stipends	2,027,565	1,511,070
Environmental provisions	87,171	837,805
	<b>47,269,133</b>	<b>38,223,287</b>
<b>33. Auditors' remuneration</b>		
External Audit Fees	1,512,047	1,230,739
Internal Audit Fees	1,000,541	2,220,960
	<b>2,512,588</b>	<b>3,451,699</b>
<b>34. Operating lease</b>		

The municipality is leasing photocopying machines on a 36 months operating starting on 01 September 2017 and ending on 31 August 2020, with no annual escalation on rentals. There is no contingent rent payable. Describe the lessee's significant leasing arrangements which include:

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>34. Operating lease (continued)</b>		
<b>Minimum lease payment</b>		
- within one year	216,169	216,169
- later than one year and not later than five years	44,916	216,169
- later than later five years	-	44,916
	<b>261,085</b>	<b>477,254</b>
<b>35. Cash generated from operations</b>		
Surplus	83,022,390	66,650,212
<b>Adjustments for:</b>		
Depreciation and amortisation	19,970,220	18,228,900
Gain on sale of assets and liabilities	425,825	138,545
Impairment reversals	-	(2,368)
Movements in retirement benefit assets and liabilities	410,682	311,087
Movements in provisions	1,058,687	2,296,055
Prior-year adjustments	(10,362,600)	(8,202,540)
<b>Changes in working capital:</b>		
Inventories	252,095	34,893
Receivables from exchange transactions	629,859	7,727,214
Other receivables from non-exchange transactions	(14,496,671)	(18,844)
Prepayments	(57,116)	(688,266)
Payables from exchange transactions	1,868,994	11,310,988
VAT	(377,786)	(2,153,850)
Unspent conditional grants and receipts	(2,943,134)	3,700,436
Consumer deposits	(11,514)	(19,513)
Employee benefit obligation -current portion	-	(12,486)
Housing Development fund	7,307	6,233
	<b>79,397,238</b>	<b>99,306,696</b>

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>36. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for</b>		
• Property, plant and equipment	53,345,388	26,848,332
<b>Not yet contracted for and authorised by accounting officer</b>		
• Property, plant and equipment	1,170,000	58,338,578
<b>Total capital commitments</b>		
Already contracted for but not provided for	53,345,388	26,848,332
Not yet contracted for and authorised by accounting officer	1,170,000	58,338,578
	<b>54,515,388</b>	<b>85,186,910</b>
<b>Authorised operational expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Professional Services - Property Valuation	391,598	920,000
• Other Operational Expenditure	25,557,177	-
	<b>25,948,775</b>	<b>920,000</b>
<b>Not yet contracted for and authorised by accounting officer</b>		
• Contracted services	1,817,647	16,517,131
<b>Total operational commitments</b>		
Already contracted for but not provided for	25,948,775	920,000
Not yet contracted for and authorised by accounting officer	1,817,647	16,517,131
	<b>27,766,422</b>	<b>17,437,131</b>
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	54,515,388	85,186,910
Authorised operational expenditure	27,766,422	17,437,131
	<b>82,281,810</b>	<b>102,624,041</b>

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc. Included above are contracts relating to electrification projects that are in the Eskom licence area which are subsequently handed over to Eskom after completion.

### Operating leases - as lessee (expense)

<b>Minimum lease payments due</b>		
- within one year	216,169	216,169
- in second to fifth year inclusive	44,916	216,169
- later than five years	-	44,916
	<b>261,085</b>	<b>477,254</b>

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable. Additional information on leases is disclosed on note 34

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 37. Contingencies

1. There is a pending dispute relating to INEP/Massification grants Vat treatment, that the municipality claimed as Input VAT based on previous guidance issued by Treasury, subsequent to that there is a guidance that affected the treatment of spending on these grants and that has a direct impact on the VAT Input already claimed and for future possible claims. The current amount is estimated at R 8 million, additional guidance is being sought and once we have been comprehensively advised the VAT amount will be treated accordingly. The matter is relating to the treatment of electrification grants expenditure on the areas under the licensed areas of Eskom where we are handing over such project on completion to Eskom for maintenance. In the current financial year the INEP grant was only used to electrify the areas within the Town boundary, as such VAT is not disputed.

2. Nquthu Plaza-McCormick is demanding the municipality to finalise the transfer of land that was bought, the municipality is defending this matter as there are conditions in the deed of sale that the buyer has failed to meet despite being placed on terms. The municipality is willing to finalise the sale once the conditions are met. The estimated legal costs are R 100 000.

3. There is a claim for loss of support from the family of former councillor Mr. Ntombela, who was killed in school premises where he was working as a teacher, a learner was killed and others injured. The municipality is cited as one of the defendants to the court matter however we have informed that the municipality stands a good chance of defending the matter as schools are the competencies of provincial government and not local government. The estimated claim and legal costs value is R 20 670 000, as per the summons.

4. LNS Holding was appointed as a middle-housing developer, they are demanding the municipality finalise transfers to buyers of property sites however the municipality is defending the matter because the agreement was not to sell vacant and commercial sites, but to build and sell completed structures (houses). Furthermore gains from those site sold before recoding the dispute were not paid over to the municipality. Estimated legal costs are R 100 000. The matter for FM Madlala is linked to this matter because he bought land from this company and paid them and is now demanding the municipality to transfer that land to them.

5. Disputes regarding appointment of senior managers is in the High Court where the MEC for CoGTA has submitted application for nullifying the renewal of existing senior managers. The estimated legal fees are R 300 000.

6. There is a dispute on the Estate of ES Nyandeni since the municipality build on his land and the swap deal is being negotiated, the negotiations are promising to yield results.

7. UMthashana TVET took the municipality to court as they sought relief to not pay rates as they said the municipality must not charge them the rates on the land that the municipality donated to them, the further relief they sought was that the municipality must not implement debt collection and credit control to them by cutting off power because they were paying until the dispute is resolved. The matter is currently being negotiated for a possible out of court settlement, if the negotiations fail then the matter will be sent to the court for determination.

8. There is a dispute about the boundaries in Nondweni Township where Inkosi is claiming that the land belongs to him, the IGR initiatives have failed until COGTA advised the municipality to pursue the matter legally which will attract an estimated cost of R 150 000 as the attorneys for the Inkosi has intended to vigorously opposed the municipality.

9. Dees Tow-Ins & Auto Works was appointed to tow the truck to Vryheid but they towed it to their premises in Dundee and subsequently claimed storage fees and refused to release the truck and take it to Vryheid, the estimated costs including legal fees is R 50 000.

Parties	Case number	Forum	Summary of matters		
1. SARS	N/A	N/A	Input VAT claimed on INEP grant funding expenditure	8,000,000	8,000,000
2. Nquthu Plaza/McCormick v Nquthu LM	None	Not in court (currently out of court negotiations)	Claim of land transfer	100,000	100,000

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand				2019	2018
<b>37. Contingencies (continued)</b>					
3. Ntombela family and others v Nquthu LM and others	4991/18P	PMB High Court	Damages claim for loss of support	20,670,000	20,670,000
4. LNS Hodlings v Nquthu LM	Master 1935/10	Master of the High Court Gauteng	Claim of land transfer	100,000	100,000
4.1 FM Madlala v Nquthu LM	13749/16P	PMB High Court	Claim of land transfer	80,000	80,000
5. MEC for CoGTA v Nquthu LM	13020/17P	PMB High Court	Dispute on management employment contracts extension	300,000	300,000
6. Estate SE Nyandeni v Nquthu LM	Estate 10749/12P	PMB Master of the High Court	Claim of land transfer	100,000	-
7. Umthashana TVET v Nquthu LM	2793/16	PMB High Court	Electricity disconnection interdict	80,000	80,000
8. Nquthu Lm v Inkosi Hlatshwayo	Not yet in court	N/A	Nondweni Land Dispute	150,000	-
9. Nquthu LM v Dees Tow-Ins & Auto Works	308/18	Magistrate Court	Claim on towing services	50,000	50,000
10. Department of Labour v Nquthu LM	N/A	N/A	N/A	-	20,000
				<b>29,630,000</b>	<b>29,400,000</b>
				-	-

### 38. Related parties

The salaries of members of key management and councilors are disclosed under the employee costs note 25. The municipality does not have any other related parties except for the management and councilors we also do not have a municipal entity.

The municipality did not have any related party transactions.

### 39. Change in estimate

#### Property, plant and equipment

The municipality has finalised the unbundling process of all its PPE during the year under review, which had an impact in classifications.

### 40. Prior period errors

The IGRAP1 was not utilised to impair the traffic fines and this was done retrospectively.

During the unbundling of assets process there were assets that were identified as should have been donated on completion to Eskom and Department of Transport.

#### Statement of financial position

Property, plant and equipment	-	(13,249,349)
Receivables from non-exchange transactions	-	(1,634,611)
Opening Accumulated Surplus or Deficit	-	(13,249,349)

#### Statement of financial performance

Provision for bad debts	-	1,634,611
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# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 41. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: the current global economic crisis may have effect whereby businesses closes and fail to pay their debts due, also the unemployment levels will increase and more debts maybe written-off.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis.

#### Market risk

#### Interest rate risk

As the municipality does have significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates. But the municipality is only investing on banks as per Cash and Investment regulations which limits the exposure.

### 42. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 43. Events after the reporting date

No material facts and circumstances have occurred between the accounting date and the date of this report that would have an impact on the financial statements.

### 44. Fruitless and wasteful expenditure

Opening balance as previously reported	8,414	563,019
<b>Opening balance as restated</b>	<b>8,414</b>	<b>563,019</b>
Add: Irregular Expenditure - current period	88,894	8,414
Less: Amounts recoverable - prior period	-	(563,019)
Less: Amount written off - current	(88,894)	-
Less: Amount written off - prior period	(8,414)	-
<b>Closing balance</b>	<b>-</b>	<b>8,414</b>

The office of the Accounting Officer has prepared a report of the instances, which relates to interest charged on late payment of accounts (Eskom, Telkom & Motor Vehicle licences), the report was considered by the Council.

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 44. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

Umzinyathi Water Account	Disciplinary steps taken/criminal proceedings Still under process	88,894	-
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### 45. Irregular expenditure

Opening balance	6,115,987	2,498,807
Add: Irregular Expenditure - current year	-	6,115,987
<b>Opening balance as restated</b>	<b>6,115,987</b>	<b>8,614,794</b>
Less: Amounts not recoverable (and written-off)	(6,115,987)	(2,498,807)
<b>Closing balance</b>	<b>-</b>	<b>6,115,987</b>

### Cases under investigation

### 46. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Amount paid - current year	688,266	813,306
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#### Audit fees

Current year subscription / fee	1,512,047	1,230,739
Amount paid - current year	(1,512,047)	(1,230,739)
	-	-



# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 46. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### PAYE and UIF

Current year subscription / fee	9,769,183	7,141,404
Amount paid - current year	(9,769,183)	(7,141,247)
	<b>-</b>	<b>157</b>

#### Pension and Medical Aid Deductions

Current year subscription / fee	10,822,383	8,533,609
Amount paid - current year	(10,822,383)	(8,533,609)
	<b>-</b>	<b>-</b>

#### VAT

VAT receivable	4,462,410	4,084,624
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All VAT returns have been submitted by the due date throughout the year, returns are submitted monthly and on payment basis. SARS paid the interest for late refunds when they made refunds where applicable. There are two refunds outstanding May and June.

#### Councillors' arrear consumer accounts

There was one Councilor who had arrear account outstanding for more than 90 days at June 30, 2019 who also had account outstanding for more than 90 days during a financial year.

June 30, 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councilor NT Nhlebela	524	31,672	32,196
Councilor SD Masimula	(1,349)	1,562	213
Councilor CN Skhosana	(639)	910	271
	<b>(1,464)</b>	<b>34,144</b>	<b>32,680</b>
June 30, 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councilor NT Nhlebela	(978)	31,109	30,131
Councilor SD Masimula	57	698	755
Councilor CN Skhosana	105	363	468
	<b>(816)</b>	<b>32,170</b>	<b>31,354</b>

During the year the following Councilors' had arrear accounts outstanding for more than 90 days.

June 30, 2019	Highest outstanding amount	Aging (in days)
Councilor NT Nhlebela	32,196	365
June 30, 2018	Highest outstanding amount	Aging (in days)
Councilor NT Nhlebela	30,131	365

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 46. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager (as per section 36 (1)(b) of regulations as they are deemed minor and noted by Council. The expenses incurred as listed hereunder have been recorded and are to be submitted to the Council for rectification. In all these instances only one quotation was obtained.

### 47. Actual operating expenditure versus budgeted operating expenditure

Explanations for the variances on comparison of actual operating expenditure versus budgeted expenditure are stated below. Only variances of 10% are provided with explanations.

#### 51.1 Statement of financial performance

##### 51.1.1 REVENUE 1.1 Statement of financial performance

Service charges - Consumption of electricity is based on demand by residents which fluctuates and losses as disclosed in the material electricity losses

Rental of facilities and equipment - Rental income is usage dependant which cannot be controlled

Government grants and subsidies - Additional grants received (MIG), increased in spending on grants.

Miscellaneous other revenue - Income is ad hoc and municipality has no control over

Interest received - investment - Investing of funds not required immediately to earn higher interest

#### 5.1.2 EXPENDITURE

Depreciation - Major infrastructure projects completed earlier than expected

Employee related costs - Employees not making use of benefits like medical aid and housing, however there was an increase in salaries due to the implementation of Job Evaluation

Repairs and maintenance - Repairs and planned maintenance are done as required, expenditure is based on those

Bulk purchases - Based on electricity consumption patterns by the consumers.

Contracted Services - Reduction of the outsource activities

General Expenses - Cost containment strategies to reduce costs and unnecessary spending in line with priorities set like publicity, accommodation, printing and stationery etc.E

### 48. Actual capital expenditure versus budgeted capital expenditure

The explanations for variances of 10% on the comparison of actual capital expenditure versus budgeted expenditure are provided below.

### 49. Deviation from supply chain management regulations

There were no deviations from the Municipal Supply Chain Management Regulations and Policy recorded during the reporting period.

### 50. Assets subject to restrictions

There are no assets that have been recognised, which have are subject to any restrictions.

# Nquthu Local Municipality

Annual Financial Statements for the year ended June 30, 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>51. Material Losses - Electricity</b>		
<b>kWh value</b>		
Total Purchased(kWh)	20,837,400	20,556,545
Total Sold (kWh)	(10,799,595)	(9,621,268)
Own consumption (kWh)	(110,571)	(124,428)
Free basic electricity (kWh)	(609,800)	(638,450)
	<b>9,317,434</b>	<b>10,172,399</b>
<b>Monetary value</b>		
Average selling price per kWh	1.2790	1.2890
Electricity cost (R)	19,587,350	18,099,050
<b>Electricity loss (R) (Based on kWh loss)</b>	<b>11,916,998</b>	<b>13,112,222</b>

The municipality is licensed by the National Electricity Regulator of South Africa to distribute electricity within the proclaimed area of Nquthu Town.

The municipality has investigated the causes of the losses and the major contributing factors are illegal connections, tampering, lack of accounting for streetlight usage and technical/distribution losses due to ageing infrastructure.

The percentage of losses is 44.71% (2018:49.48%) in kWh values.

### 52. Indigent support

All Eskom customers qualify for Free Basic Electricity (FBE) which is 50kWh per month

Households amounting to 1 180 are subsidized for alternative energy per month on the solar panels - 1 713 households - projects for those areas without electricity as yet, installations to other households is proceeding.

Electricity customers serviced by our licence also get a 50kWh every month. The management has been tasked to develop a policy where only deserving households benefits in all these rather than the current blanket approach.

### 53. Awards to persons in service of state

There are no known suppliers whose directors are in service of state that has been appointed in this financial year.

### 54. Budget differences

#### Material differences between budget and actual amounts

There were no material differences between the final budget and the actual amounts where reasons are provided in note 47.

#### Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to pages to in the annual report.